
Ag Credit Agricultural Credit Association

THIRD QUARTER 2008

TABLE OF CONTENTS

Management's Discussion and Analysis of
Financial Condition and Results of Operations 2

Consolidated Financial Statements

Consolidated Balance Sheets 4

Consolidated Statements of Income..... 5

Consolidated Statements of Changes in Members' Equity..... 6

Notes to the Consolidated Financial Statements 7

CERTIFICATION

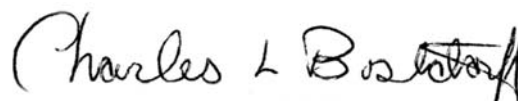
The undersigned certify that we have reviewed the September 30, 2008 quarterly report of Ag Credit Agricultural Credit Association, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Neil L. Jordan
Chief Executive Officer



Daniel E. Ebert
Chief Financial Officer



Charles L. Bostdorff
Chairman of the Board

October 30, 2008

Management's Discussion and Analysis of Financial Condition and Results of Operations

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of Ag Credit Agricultural Credit Association (Association) for the nine months ended September 30, 2008. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2007 Annual Report of the Association. The accompanying consolidated financial statements (financial statements) were prepared under the oversight of the Audit Committee of the Board of Directors, which includes Paul N. Aley, S. Jerry Layman and Keith L. Roberts. The results for the first nine months of 2008 are not necessarily indicative of results to be expected for the year.

The Association obtains funding from AgFirst Farm Credit Bank (the Bank). The Association is materially affected and shareholder investment could be affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are on the AgFirst website, www.agfirst.com or may be obtained at no charge by calling 1-800-845-1745, extension 378, or writing Stephen Gilbert, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202.

Copies of the Association's Quarterly and Annual Reports are available on the Association's website, www.agcredit.net, or may be obtained upon request free of charge by calling 1-800-837-3678, extension 1023, or writing Dan Ebert, Chief Financial Officer, Ag Credit, ACA, 610 W Lytle Street, Fostoria, OH 44830. The Association prepares an electronic version of the Quarterly Report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities, including general cash grain crops, livestock and horticultural products. These commodities totaled approximately \$670,356 or 77.5 percent of the loan portfolio as of September 30, 2008. The Association recognizes the commodity concentration risk exceeds normally accepted industry standards. This is partially offset by non-farm income sources for many borrowers, especially less than full-time farmers. A more significant offset to the commodity concentration risk is the use of governmental loan guarantees. The loan guarantees are obtained through the Farm Service Agency (FSA) and the U. S. Department of Agriculture (USDA). As of September 30, 2008 the Association has \$245,059 of guaranteed loan

volume, which is 28.3 percent of loans. This greatly reduces the potential of loss in the Association's loan portfolio and has proven to be effective in offsetting the concentration risk.

Gross loan volume of the Association as of September 30, 2008 was \$864,919, an increase of \$85,939 as compared to \$778,980 at December 31, 2007. The 11.0 percent increase in loan volume is related to an increase in real estate mortgage, production and intermediate-term, processing and marketing, farm-related business loans and rural home loans. The increase in production and intermediate term loans is typical for the first nine months of the year. Production and intermediate term volume typically increases during the second and third quarters of the year as borrowers use their loans to pay crop input and other expenses. This increase is slightly less than for the same period in 2007 due to the additional liquidity experienced by members as a result of favorable cash grain prices and 2007 crop yields. Net loans outstanding at September 30, 2008 were \$861,003 as compared to \$775,480 at December 31, 2007. Net loans accounted for 95.4 percent of total assets at September 30, 2008 as compared to 95.0 percent at December 31, 2007.

There is an inherent risk in the extension of any type of credit. There are no significant potential credit risks identified within the loan portfolio that could adversely impact the performance of the portfolio in the near future. Portfolio credit quality remains strong and credit administration is satisfactory. Nonaccrual loans increased by \$2,139 from \$957 at December 31, 2007 to \$3,096 at September 30, 2008. The increase resulted from the transfer to nonaccrual status of several loans with a single borrower.

Association management maintains an allowance for loan losses sufficient to cover the possible losses in the loan portfolio based on current and expected future conditions. During the first nine months of 2008 the Association recorded an increase in the allowance for loan losses of \$402 and recognized net recoveries of \$14. For the same period of 2007, the Association recorded an allowance for loan losses of \$1 and recognized net charge-offs of \$78. The allowance for loan losses was \$3,916 at September 30, 2008 compared to \$3,500 at December 31, 2007.

RESULTS OF OPERATIONS

For the three months ending September 30, 2008

Net income for the three months ended September 30, 2008 (Q3 2008) was \$4,696, which is a decrease of \$434 or 8.5 percent when compared to the net income of \$5,130 for the same period in 2007 (Q3 2007). The decrease in net income was primarily due to a decrease in earnings on the Association's own funds in loans and an increase in operating expenses.

Net interest income for Q3 2008 decreased by \$225 or 3.8 percent when compared to Q3 2007. The decrease was mainly due to a decrease in the earnings on the Association's own funds in loans as a result of the significant drop in the Prime interest rate over the past twelve months. This decrease was offset in part by increased net interest income generated on the increased loan volume previously discussed.

Noninterest income is comprised of loan fee income, fees for financially related services (FRS), equity in earnings from the Bank and other noninterest income. The increase in noninterest income of \$45 or 2.6 percent is primarily a result of a \$189 increase in equity in earnings from the Bank offset by a \$135 decrease in FRS income. The equity in earnings from the Bank increased as a result of increased borrowing from the Bank to fund the increased loan activity previously discussed. FRS income is less due to a reduction in crop insurance income, which is primarily related to changes in the structure of the crop insurance side of our business and subsequent changes in the related cashflow.

Noninterest expense for Q3 2008 was \$2,583 as compared to \$2,315 for Q3 2007. The \$268 or 11.6 percent increase is primarily a result of increased expenses for guaranteed loan fees, new employees, scheduled salary increases, insurance premiums, bank service charges, purchased services, travel, communications, furniture, equipment, data processing services, printing and supplies and employee training.

The provision for income taxes was \$54 and \$66 for Q3 2008 and Q3 2007, respectively.

For the nine months ending September 30, 2008

Net income for the nine months ended September 30, 2008 was \$14,100 for a decrease of \$827 or 5.5 percent when compared to the net income of \$14,927 for the same period in 2007. The decrease in net income was primarily due to a slight decrease in net interest income, an increase in the provision for loan losses and an increase in operating expenses offset by an increase in noninterest income.

Net interest income for the first nine months of 2008 decreased by \$35 or 0.2 percent when compared to the same period of 2007. The decrease is a result of an increase in net interest income from the increase in loan volume previously discussed, offset by a significant decrease in earnings from the Association's own funds in loans as previously discussed.

Noninterest income for the first nine months of 2008 was \$4,887 and \$4,506 for the same period of 2007. The \$381 or 8.5 percent increase was due to the same reasons as previously discussed.

Noninterest expense for the first nine months of 2008 was \$7,397 as compared to \$6,620 for the first nine months of 2007. The \$777 or 11.7 percent increase is primarily a result of increased expenses for guaranteed loan fees, new employees, scheduled salary increases, insurance premiums, bank service charges, purchased services, travel, communications, furniture, equipment, data processing services, printing and supplies, public and member relations and employee training.

The provision for income taxes was \$139 and \$144 for the first nine months of 2008 and 2007, respectively.

The following table shows the key results of operations ratios for the nine months ended September 30, 2008 and September 30, 2007, respectively.

	9/30/08	9/30/07
Return on average assets	2.24%	2.63%
Return on average equity	13.94%	15.90%
Net interest margin	2.84%	3.16%

The changes in these ratios are directly related to the changes in income discussed in the Results of Operations section, changes in assets discussed in the Loan Portfolio section and changes in capital discussed in the Capital Resources section.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. Additional information on the GFA, liquidity and funding process and funding management is found on pages 13 and 14 of the 2007 Annual Report. The total notes payable to the Bank at September 30, 2008 was \$748,027 as compared to \$672,645 at December 31, 2007. The \$75,382 or 11.2 percent increase is primarily attributed to borrowing from the Association's loan with the Bank to fund the increase in loan volume and the cash portion of the 2007 patronage refund and the distribution of the 2003 Qualified Allocated Surplus (QAS) and the 2002 Nonqualified Allocated Surplus (NQAS) offset by 2008 year-to-date earnings, reduced accrued interest receivable and the receipt of the Bank's 2007 patronage refund to the Association.

CAPITAL RESOURCES

Total members' equity increased by \$12,242 or 9.6 percent to \$139,468 at September 30, 2008 as compared to the December 31, 2007 total of \$127,226. The increase is primarily related to current year earnings and an increase in capital stock and participation certificates offset by the QAS and NQAS distributions previously discussed.

At September 30, 2008, the Association's permanent capital ratio, total surplus ratio and core surplus ratio exceeded the regulatory minimum requirements of 7 percent, 7 percent and 3.5 percent, respectively. These ratios are calculated in accordance with Farm Credit Administration (FCA) regulations and are defined below:

- The permanent capital ratio is average at-risk capital divided by average risk-adjusted assets. As of September 30, 2008 our ratio was 18.26 percent.
- The total surplus ratio is average unallocated and allocated surplus less any deductions made in the permanent capital divided by average risk-adjusted assets. As of September 30, 2008 our ratio was 16.64 percent.
- The core surplus ratio is average unallocated surplus and eligible allocated surplus less the Association's average investment in the Bank divided by average risk-adjusted assets. As of September 30, 2008 our ratio was 14.72 percent.

AgCredit Agricultural Credit Association
Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2008 <i>(unaudited)</i>	December 31, 2007 <i>(audited)</i>
Assets		
Cash	\$ 2,217	\$ 4,445
Loans	864,919	778,980
Less: allowance for loan losses	3,916	3,500
Net loans	861,003	775,480
Accrued interest receivable	22,155	18,248
Investment in other Farm Credit institutions	10,678	10,678
Premises and equipment, net	1,765	1,688
Due from AgFirst Farm Credit Bank	4,018	5,702
Other assets	422	349
Total assets	\$ 902,258	\$ 816,590
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 748,027	\$ 672,645
Accrued interest payable	2,895	3,008
Patronage refund payable	98	7,172
Advanced conditional payments	864	342
Other liabilities	10,906	6,197
Total liabilities	762,790	689,364
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	11,522	9,171
Retained earnings		
Allocated	61,351	65,418
Unallocated	66,595	52,637
Total members' equity	139,468	127,226
Total liabilities and members' equity	\$ 902,258	\$ 816,590

The accompanying notes are an integral part of these financial statements.

AgCredit Agricultural Credit Association
Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2008	2007	2008	2007
Interest Income				
Loans	\$ 14,296	\$ 14,970	\$ 42,097	\$ 43,045
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	8,622	9,067	24,935	25,842
Other	3	7	11	17
Total interest expense	<u>8,625</u>	<u>9,074</u>	<u>24,946</u>	<u>25,859</u>
Net interest income	5,671	5,896	17,151	17,186
Provision for loan losses	93	95	402	1
Total	<u>5,764</u>	<u>5,991</u>	<u>17,553</u>	<u>17,187</u>
Net interest income after provision for loan losses	<u>5,578</u>	<u>5,801</u>	<u>16,749</u>	<u>17,185</u>
Noninterest Income				
Loan fees	79	101	501	266
Fees for financially related services	233	368	322	634
Equity in earnings of other Farm Credit institutions	1,438	1,249	4,018	3,561
Gains (losses) on other property owned, net	—	(1)	—	17
Other noninterest income	5	(7)	46	28
Total noninterest income	<u>1,755</u>	<u>1,710</u>	<u>4,887</u>	<u>4,506</u>
Noninterest Expense				
Salaries and employee benefits	1,484	1,353	4,246	3,943
Occupancy and equipment	124	115	425	401
Insurance Fund premium	195	208	631	602
Other operating expenses	780	639	2,095	1,674
Total noninterest expense	<u>2,583</u>	<u>2,315</u>	<u>7,397</u>	<u>6,620</u>
Income before income taxes	4,750	5,196	14,239	15,071
Provision for income taxes	54	66	139	144
Total	<u>4,794</u>	<u>5,262</u>	<u>14,378</u>	<u>15,215</u>
Net income	<u>\$ 4,696</u>	<u>\$ 5,130</u>	<u>\$ 14,100</u>	<u>\$ 14,927</u>

The accompanying notes are an integral part of these financial statements.

AgCredit Agricultural Credit Association
**Consolidated Statements of Changes in
Members' Equity**

(unaudited)

(dollars in thousands)

	Capital Stock and Participation Certificates	Retained Earnings		Total Members' Equity
		Allocated	Unallocated	
Balance at December 31, 2006	\$ 9,241	\$ 58,986	\$ 51,076	\$ 119,303
Net income			14,927	14,927
Capital stock/participation certificates issued/(retired), net	(16)			(16)
Dividends declared/paid			(138)	(138)
Retained earnings retired		(4,488)		(4,488)
Patronage distribution adjustment		(1,564)	415	(1,149)
Balance at September 30, 2007	\$ 9,225	\$ 52,934	\$ 66,280	\$ 128,439
Balance at December 31, 2007	\$ 9,171	\$ 65,418	\$ 52,637	\$ 127,226
Net income			14,100	14,100
Capital stock/participation certificates issued/(retired), net	2,346			2,346
Dividends declared/paid	5		(131)	(126)
Retained earnings retired		(4,073)		(4,073)
Patronage distribution adjustment		6	(11)	(5)
Balance at September 30, 2008	\$ 11,522	\$ 61,351	\$ 66,595	\$ 139,468

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)
(unaudited)

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements include the accounts of Ag Credit Agricultural Credit Association (the Association). A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2007, are contained in the 2007 Annual Report to Shareholders. These unaudited third quarter 2008 consolidated financial statements should be read in conjunction with the 2007 Annual Report to Shareholders.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP) and prevailing practices within the banking industry. The results for the nine months ended September 30, 2008 are not necessarily indicative of the results to be expected for the year ending December 31, 2008.

Certain amounts in the prior period's consolidated financial statements may have been reclassified to conform to the current period's consolidated financial statement presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The Association maintains an allowance for loan losses in accordance with GAAP. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of September 30, 2008 the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

In December 2007, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141R, "Business Combinations" (SFAS 141R). SFAS 141R requires business combinations to be accounted for under the acquisition method of accounting (previously called the purchase method). The acquisition method requires (a) identifying the acquirer, (b) determining the acquisition date, (c) recognizing and measuring the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree,

at their acquisition date fair values, and (d) recognizing and measuring goodwill or a gain from a bargain purchase. SFAS No. 141R should be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early application is prohibited. The Association is still evaluating the provisions of SFAS 141R, but believes that its adoption will significantly impact its accounting for combinations/acquisitions that may occur in 2009 and beyond.

NOTE 2 – ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

	For the nine months ended September 30,	
	2008	2007
Balance at beginning of period	\$ 3,500	\$ 3,432
Provision for loan losses	402	1
Recoveries, net of loans (charged off)	14	(78)
Balance at end of period	<u>\$ 3,916</u>	<u>\$ 3,355</u>

NOTE 3 – EMPLOYEE BENEFIT PLANS

The following is a table of retirement and other postretirement benefit expenses for the Association:

	For the nine months ended September 30,	
	2008	2007
Pension	\$ 286	\$ 366
401(k)	173	153
Other postretirement benefits	211	228
Total	<u>\$ 670</u>	<u>\$ 747</u>

As of September 30, 2008 no contributions have been made to the pension plan for 2008. Actuarial projections as of the last plan measurement date (September 30, 2007) did not anticipate any contributions for 2008. However, a declining investment market, which has impacted the discount rate and the return on plan assets, will require a contribution to be made prior to the next plan measurement date at December 31, 2008. The contribution amount will be determined by the plan's Sponsor Committee.